

State of Michigan
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Department of Environmental Quality



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**Drinking Water Revolving Fund
Final Intended Use Plan
Fiscal Year 2009**

**Prepared by:
Revolving Loan and Operator Certification Section
Environmental Science and Services Division
and Water Bureau
September 2008**

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DWRF Final Project Priority List (PPL) for Fiscal Year (FY) 2009
DWRF Final PPL Scoring for FY 2009
Category Costs for FY 2009 Final PPL

I. INTRODUCTION

The program details of Michigan's Drinking Water Revolving Fund (DWRF) are set forth in Part 54, Safe Drinking Water Assistance, MCL 324.5401-324.5421, of the Natural Resources and Environmental Protection Act, 1994 PA 451, as amended (Act 451).

The Michigan Department of Environmental Quality (DEQ), through the Environmental Science and Services Division (ESSD) and the Water Bureau (WB), administers the DWRF. In addition, the Michigan Municipal Bond Authority (Authority) is charged with administering DWRF funds through the Shared Credit Rating Act, 1985 PA 227, as amended (Act 227).

The DWRF provides reduced interest rate loan financing to qualified water suppliers to finance construction of their waterworks system projects. Projects may include new wells, new water treatment plants, storage facilities, upgrades or expansions to existing facilities, transmission lines, pumping facilities, and other related waterworks system improvements. Suppliers must meet federal and state program requirements, as well as demonstrate their ability to publicly finance their project and retire project debt. In addition to the loan provided by DEQ, suppliers also have the option to pay for part of their project with cash and other resources.

The DWRF is a state-managed program. This final Intended Use Plan (IUP) describes how the DEQ and the Authority will jointly administer the DWRF during fiscal year (FY) 2009. The Revolving Loan and Operator Certification Section (RLOCS) of the ESSD is charged with carrying out the program administration responsibilities. The WB will assess project priority, issue the necessary construction permits, and offer technical review and assistance throughout project planning, design, and construction. Financial administration of the program will be handled by the staff of the Authority.

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The Environmental Protection Agency (EPA) Region 5 staff will offer guidance and conduct annual program oversight reviews of the DWRF. The EPA serves as a helpful partner in creating and maintaining this program.

The relationship between the DEQ, the Authority, and the EPA is established in an Operating Agreement signed by authorized signatories from each agency. The Operating Agreement is incorporated into this IUP by reference and is available from the DEQ upon request.

This final IUP includes detail on specific project funding and identifies amounts to be set aside from federal capitalization grants for other uses authorized under the federal Safe Drinking Water Act (SDWA) and Part 54 of Act 451. A public hearing for the IUP and the Project Priority List (PPL) was held on August 20, 2008.

The DEQ certifies that it is recognized by the EPA as the primary agency for management of the drinking water program. The priority system was developed and will be carried out each fiscal year by staff of the DEQ. The priority system is designed to provide assistance to those projects that will have the greatest impact in facilitating safe drinking water supplies.

II. STRUCTURE OF THE DWRF

A leveraged financing structure of the DWRF would be similar to the State Revolving Fund (SRF). For water suppliers who are municipalities with bonding authority, the DWRF would sell tax-exempt revenue bonds to provide money that would be used to reimburse communities for incurred project costs. As the DWRF reimburses suppliers, federal funds from the capitalization grant and the required state match would be transferred into a debt service reserve account to provide coverage for the leveraged bond issue. As the DWRF project construction progresses, project funds would be disbursed to the supplier from the bonds sold.

For FY 2009, however, the DEQ will continue with a direct loan structure. In a direct loan structure, federal funds and state match, or fund assets that have 'revolved' back into the fund, are paid directly to municipal borrowers. Although a direct loan structure results in a lower lending capacity in the short-term, the long-term health/capacity of the fund is enhanced.

For borrowers who are non-municipal entities, limitations on private activity for tax-exempt issues will require the DEQ and the Authority to fund private water suppliers from funds other than tax-exempt revenue bonds. These loans will be made as direct loans with a letter of credit supplied by the private borrower or through a partnership with a private

lending institution with the state providing an insurance annuity. There are no private water suppliers on the FY 2009 final PPL.

There is a provision for subordinate investment of funds between the DWRF and the SRF. This concept permits the administrators of the two funds to make temporary investments from one fund or the other in the event that moneys are needed to service debt on the state's tax exempt bond issues, cover deficiencies in a fund's reserve accounts, or satisfy other reserve account requirements. Only those funds periodically released from debt service reserve accounts, supplemental reserve accounts, revenue accounts, or any other account of the fund, wherein released moneys may be generated, may be used for the purposes of subordinate investment. This provision will not be exercised in FY 2009.

At each point that moneys are released, the DEQ and the Authority will undertake a "snapshot" look at both the SRF and the DWRF. For each fund, we will first examine whether we need to service debt or satisfy reserve account requirements within the fund from which the released moneys originated. Next, we will examine the other fund for the same conditions. Then, if sufficient moneys are available to satisfy requirements for each fund, the released money will pass completely through and become available for future commitments to new projects consistent with its source.

Set-asides in the DWRF are derived from the capitalization grant awarded to the state by the EPA. Set-asides are designated for specified uses within the DWRF to address areas of concern included in the reauthorization of the SDWA. Legal provisions included in Act 227, permit the Authority and DEQ to establish accounts and sub-accounts to track revenues and expenditures for the set-asides. The set-asides for program and other activities will be directly administered by the WB. Staff of the WB will also be responsible for the technical assistance activities, except for those funds made available to subsidize loans to disadvantaged communities. The disadvantaged community loans will be managed by the RLOCS.

The following is a list of potential set-asides identified in Section 1452 of the federal SDWA.

DWRF Administration - 4 percent

Technical Assistance - 2 percent

Program Set-asides - 10 percent

- Public Water System Supervision
- Source Water Protection
- Capacity Development
- Operator Certification

Other Activities - 15 percent, not to exceed 10 percent for any one activity

- Loans for Source Water Protection
- Assistance for Capacity Development
- Implement Wellhead Protection

It is imperative to note that the program set-asides require a one-for-one state match, in addition to the regular 20 percent state match calculated on the entire amount of the

federal capitalization grant. Thus, money diverted to these set-asides will demand a heavier investment of state or local funds.

III. ADVANTAGES OF THE DWRF

The primary advantage for Michigan water suppliers will be their ability to borrow funds at interest rates below market. The DWRF interest rate is established prior to each new fiscal year. As identified in Part 54 of Act 451, determination of the interest rates is based on demand, market conditions, program costs, and future needs.

In setting the interest rates for FY 2009, the DEQ will examine a widely used market index for general obligation municipal bonds to identify current market conditions existing at the time the draft IUP is prepared. Then, to establish a rate of interest for municipal borrowers, the DEQ will consider present and future demand for DWRF assistance and the cost of compliance.

Once the interest rate is determined for municipal borrowers, the resulting interest subsidy to municipalities would be used for private borrowers. If a private borrower chose to obtain a letter of credit and receives a direct DWRF loan from the Authority, the interest rate would be determined by using the U.S. T-bill rate as the base and applying an identical percentage reduction of interest as municipalities receive. For those private borrowers who chose to obtain financing through a financial institution, the interest rate would be the lending institution's rate charges, reduced by an identical percentage as a municipality would receive.

The interest rate for municipal borrowers in FY 2009 is 2.5 percent as established by the DEQ Director. Private borrowers would receive an interest rate subsidy that equates to the same subsidy received by municipal borrowers.

Apart from the low interest rate, suppliers also benefit from the DWRF in that they can finance all eligible waterworks system costs. The major benefit results from the fact that water supply financing in the past has always been left to the local units of government or private entities. Historically, there has been no significant state financial assistance available to local officials in meeting water supply needs. The DWRF provides an ongoing source of funding to maintain or improve drinking water quality and public health.

IV. LONG-TERM GOALS

Michigan's DWRF establishes a funding source designed to protect and preserve public health within the state's boundaries. Michigan's geographical identity as a "Great Lakes" state affords its citizens with an abundant and high quality water resource from which to draw its drinking water. Unlike many states, Michigan water supplies are plentiful and periods of restricted use are few in most communities. The great challenge for water suppliers lies in protecting the high quality of the resource, as well as ensuring that adequate volume and pressure exist to deliver potable water to the customer.

Given the limitations on pooled capital, the DEQ will work toward establishing tighter integration of the federal, state, and local partnership. The DEQ continues to examine ways to work together with various federal and state agencies, such as Rural Development and the Michigan Department of Labor and Economic Growth, so that we

may collectively fund qualifying projects and maximize use of our capital pool to achieve our stated goals.

Such partnerships will ultimately benefit everyone. Industry, tourism, and day-to-day quality of life are strengthened when our most valuable natural asset is preserved and made available for our use and enjoyment. To this end, Michigan's DWRF seeks the following:

- A. To maintain statewide compliance with all applicable state and federal drinking water laws, rules, and standards.
- B. To protect the public health and environmental quality of our state.
- C. To maintain source water assessment, wellhead protection, and source water protection programs.
- D. To develop strategies within the DWRF to assist smaller, economically disadvantaged communities in meeting drinking water standards.
- E. To promote the DWRF as a viable tool for use by Michigan water suppliers in financing their waterworks system improvements or upgrades.
- F. To secure Michigan's full share of federal funding and to expeditiously obligate these moneys, along with the state contributions, for the construction of eligible facilities that meet state and federal requirements.
- G. To develop effective partnerships with other federal and state financing sources to promote efficiency in environmental review procedures and coordination of funding.
- H. To apply a capacity assessment program for all new and existing community and nontransient noncommunity water supplies.
- I. To continue operator certification program requirements to assure proper operation and maintenance of public water systems.

V. SHORT-TERM GOALS

In order to accomplish the long-term goals, we must also focus on more immediate objectives. Therefore, our short-term goals in FY 2009 are:

- A. To continue our outreach effort to publicize the DWRF through direct mail, electronic media, newsletter publication, and meetings.
- B. To continue implementation plans for source water protection focused on statewide surface water assessments and groundwater assessments in areas tributary to the Great Lakes.
- C. To continue the state's wellhead protection program through the implementation of a matching grant program.
- D. To continue a technical assistance program for small communities.

- E. To fund projects identified on the PPL enabling them to proceed during FY 2009 with construction of facilities included in their adopted project plans.
- F. To continue to invite stakeholder participation in the development of administrative rules for conducting capacity assessments of certain public water supplies.
- G. To ensure that funded projects have reviewed and considered the security needs of the water system.

VI. ALLOCATION OF FUNDS

If a leveraged DWRF structure were utilized, the establishment of a fundable range for any given fiscal year would entail a series of steps that culminate in a determination of how much leveraged borrowing fund resources could support. Using a series of interest rate assumptions (DWRF loan rate, return on investment rates, and revenue bond rate) this process for FY 2009 is outlined below:

1. The DEQ reviewed the total amount of loans committed through September 30, 2008, and other draw amounts that affect the DWRF.

Total loan commitments through 9/30/08	\$ 527,210,000
Less reduction in loans for admin. complete projects	(\$ 8,690,287)
Less direct loan draws through 9/10/08	(\$ 59,090,671)
Less total revenue bonds issued to date	(<u>\$400,435,000</u>)
Additional revenue bond amount needed to service existing loan commitments	\$58,994,042

2. To establish estimates of reserve fund capabilities, the DEQ assumed that the new federal capitalization grant and the appropriated state match would remain constant for the next five years (for planning purposes only). These estimates were completed over a range of capitalization levels. The current national budget estimated amount for the DWRF in FY 2009 is \$829 million.
3. The DEQ then looked at how much the DWRF could support in leveraged bond sales using a five-year forecast at varying capitalization levels and interest rates. These analyses indicate that at FY 2008 interest rates, the DEQ could annually leverage approximately \$139 million (assuming the capitalization grant amount for FY 2009 remains constant).

After subtracting the amount needed to service existing loans, with continuation of a leveraged structure, fund resources could support @ \$120 million per year in new binding loan commitments.

Retaining a direct loan structure will provide \$60 million of lending capacity per year, during the five-year planning period. A direct loan structure will, however, result in higher lending capacities in future years and maximize the fund's ability to compensate for the loss of state match funds that have resulted from general fund budget cuts in recent years.

Michigan will use a direct loan structure in FY2009.

Each state may transfer 33 percent of available funds between the SRF and the DWRP programs. This may occur starting one year after a state receives its first capitalization grant for project funds. At this time, Michigan does not propose to directly transfer funds between the SRF and DWRP programs.

VII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - SET-ASIDES

The DEQ has established the set-aside percentages based on what it can utilize within the fiscal year. The split of moneys is structured to meet not only expected needs (e.g., four percent for administration), but also to target programs that can help suppliers prepare themselves to qualify for DWRP loans (e.g., technical assistance funds used to defray planning costs).

Administration

Up to four percent of the federal capitalization grant can be used to administer the fund. Michigan intends to utilize the full four percent, which for FY 2009 is estimated at \$1,127,120. Any funds not utilized in FY 2009 will be retained on account for administration costs in future years.

Technical Assistance

The Technical Assistance Program for FY 2009 will use 2 percent of the federal grant award or approximately \$569,000 of the expected federal grant.

The DEQ will use approximately half of this fund for a contract to redesign an on-line data management system (Wellogic) for active and abandoned wells. The total cost for this contract is estimated to be \$600,000 with \$300,000 of expenditures projected for FY 2009.

Approximately \$210,000 of the set-aside fund will be used to support staffing for FY 2009. The DEQ will use .75 Full Time Employees (FTE) to administer the Wellogic system that includes development and maintenance of the existing system and training for system users. An additional 1.0 FTE will be used for technical staff who provide direct assistance to small systems employing treatment for compliance, especially the new treatment applications for removal of arsenic.

In addition, the DEQ will use available set-aside funds to pay for project planning costs for disadvantaged communities with less than 10,000 people who apply for DWRP assistance. Finally, available funds will be used to provide direct financial planning assistance to certain small community water systems wishing to make improvements and exploring possible financing options.

Program Set-Asides - \$ 1,700,000

The DEQ intends to continue four programs in FY 2009 using program set-asides. The additional required matching funds will be provided through the Public Water System Supervision Program from state general fund and restricted fund (Fee) revenue plus the perpetual match from the FY 1993 Public Water System Supervision matching money. The following is a breakdown of the \$ 1,700,000 projected amount:

Capacity Development - State staff, augmented by contracts for services with local public health departments (LHD), are being used to implement the program based upon EPA guidance and our policies for new systems. The 1998 amendments to the Michigan Safe Drinking Water Act, 1976 PA 399, as amended (Act 399), provided authorization to conduct the program. The amendments allow the DEQ to apply capacity assessment criteria to new community and nontransient noncommunity public water supplies, to DWRf applicants and existing systems selected under a state strategy. The DEQ developed guidance for these efforts using stakeholders for public participation. The workload associated with capacity development activities in community systems continue to be the equivalent of 4 FTEs, which the DEQ will continue to fund in FY 2009.

To conduct financial capacity assessments of new community systems, DEQ staff review financial information submitted by proposed systems. Approval must be granted before these systems commence operation. LHDs also conduct capacity assessments of new, nontransient noncommunity systems and are reimbursed for this activity. In FY 2007, the amount expended on conducting capacity-related assessments for new systems decreased from previous years. A similar reduction is expected in both FY 2008 and FY 2009 unless the state's economy improves.

The DEQ will also continue to provide education and outreach efforts in FY 2009 by cosponsoring a newsletter delivered four times a year to all community public water systems. The newsletter promotes better operation and maintenance practices and provides regulatory guidance.

The total project amount to be expended is again expected to be \$450,000 (all federal funds).

Source Water Protection – The total project amount for this activity is \$ 300,000 (all federal funds). It is split between several activities: the Well Abandonment Program, the State Groundwater Database, and the Source Water Protection Program.

Abandoned Well Management Program

The DEQ utilizes .5 FTE to administer and conduct a statewide, comprehensive Abandoned Well Management (AWM) program. There are four components to the AWM program: training of well drilling contractors and LHD staff, development of public education materials, and enforcement of abandoned well plugging activities.

The statewide abandoned well public education and enforcement program is conducted by the DEQ utilizing 43 LHDs basic services contracts. The DEQ will continue to provide training and technical support to the LHDs involving abandoned well plugging requirements. In addition, the DEQ will provide direct enforcement assistance and public education materials for distribution.

State Ground Water Database

The DEQ utilizes .75 FTE funded through this set-aside to administer an on-line computerized data management system (the Wellogic data system) that captures well construction and geological data at the time of new well installation and plugging-related data at the time of well abandonment. In addition, software

evaluation, data system maintenance, and system user training activities are funded through this set-aside.

Surface-Source Water Protection

The DEQ proposes to utilize 1.0 FTE funded through this set-aside to continue the Source Water Protection Program serving 70 communities that use surface water as their drinking water source. The funding will allow DEQ to facilitate implementation of surface water related source water protection activities in these communities and to initiate development of Surface Water Intake Protection Program (SWIPP) rules.

On-site Wastewater Program

This program provides assistance to LHDs for installation of on-site wastewater systems. Funding through this set-aside will not be necessary in FY 2009 due to establishment of a state funding mechanism.

The balance of this set-aside will be used for special Abandoned Well Management projects and to support data management support services provided by the Michigan Department of Information Technology.

Operator Certification - The ESSD continues to administer the program through expansion and improvement to the existing waterworks operator certification program. The EPA approved the Operator Certification Program in July 2001. Based upon the activities required for continued program approval, the DEQ has estimated the costs to expand/revise the program. Operator training is also included with this program.

The majority of the estimated annual cost of the program, \$400,000, is for permanent staff (4 FTEs). Four staff work exclusively on drinking water training and certification program issues. A fifth FTE (a Michigan Department of Information Technology computer programmer), is assigned part-time to the Operator Training and Certification Unit (OTCU) to work exclusively on the OTCU database tracking system. The tracking system includes data management equipment and support services for recordkeeping and compliance tracking. Fifty thousand will be for certification examination and renewal; training services and outreach; and exam development/validation activities for community and noncommunity operators and systems. The total project amount for the Operator Certification Program elements is \$450,000 (all federal funds).

Public Water System Supervision – The WB is continuing to experience increasing cost to support existing staff in the drinking water program, resulting from decreasing or stable federal grants and no new state general fund support. Work responsibilities continue to increase with implementation and promulgation of new drinking water regulations such as arsenic; LT2/Stage 2 Disinfection By-Products; and the Ground Water Rule.

The DEQ proposes to again withhold \$500,000 (all federal funds) in FY 2009 to support existing staff and the existing scope of program. No additional staff is proposed. This will allow the DEQ additional management flexibility to address priority work efforts, including the highest priority activities associated with the new drinking water regulations.

Wellhead Protection (Section 1452(k)) - \$1,000,000

The DEQ has authorization under Act 399 to implement a wellhead protection matching grant program to enhance the existing voluntary state program. A stakeholder process adopted the administrative rules.

Approximately 2.5 FTEs support the program. In addition, contract services include: wellhead protection outreach; education and training of water system personnel; and database enhancements and maintenance. The DEQ will have a new contract beginning in the last quarter of FY 2008 to support enhancement of Michigan Interactive Groundwater for Wellhead Protection (MIGWWP) to delineate wellhead protection areas using existing state databases, plus mapping capabilities will be upgraded. The remaining amount, approximately \$500,000, will be for wellhead protection grants. The grant funds are matched 100 percent by public water system awardees. The program emphasis is scientific delineation of wellhead protection areas, obtaining state approval for complete wellhead protection programs, and implementation activities.

The following table depicts the history of wellhead protection grants in Michigan:

Fiscal Year	Number of Communities	Grant Dollars Awarded
1999	54	\$1,014,044
2000	62	\$1,080,390
2001	66	\$1,044,266
2002	85	\$1,286,589
2003	84	\$1,260,180
2004	67	\$ 857,772
2005	57	\$ 848,143
2006	50	\$ 682,029
2007	43	\$ 677,629
2008	43	\$ 699,247

VIII. CRITERIA AND METHOD FOR DISTRIBUTION OF FUNDS - PROJECT LOANS

Michigan's DWRP will commit loans for qualified projects based on project plans that were submitted to the RLOCS by May 1, 2008. Plans were reviewed by staff of the DEQ to ensure compliance with Section 5405 of Act 451, before being placed on the PPL for FY 2009. The DWRP must, to the maximum extent practicable, give priority to projects that:

- address the most serious risks to human health;
- are necessary to ensure compliance with the requirements of the federal SDWA; and
- assist systems most in need according to the state's affordability requirements.

Michigan's priority system takes these factors into account in the assignment of priority points. Acute violations receive a larger number of points than any other category. In fact, standard compliance offers over 41 percent of a project's total possible points. All factors point to the need for the project to comply with federal drinking water requirements; affordability is addressed by the award of additional points for disadvantaged community status, and is the ultimate tiebreaker. Michigan's priority point system is detailed in Section 5406 of Act 451.

The FY 2009 DWRF final PPL is included as part of the IUP. The DWRF final PPL has 36 projects totaling \$186 million. This includes 16 projects and/or segments equaling \$99 million for funding in the future.

Section 1452(a)(2) of the federal SDWA requires the state to first make available 15 percent of all funds annually credited to the DWRF for financial assistance to water suppliers serving fewer than 10,000 persons. For FY 2009, Michigan must reach or exceed \$4,226,700 to satisfy this requirement.

All projects are reviewed and scored based upon the priority point system outlined in Part 54 of Act 451. Funds are made available for commitment based on the priority ranking and projects will only be funded out of order to satisfy requirements for small community assistance.

Employing the criteria found in Section 5415 of Act 451, the Director of the DEQ will set the interest rate prior to the public hearing for FY 2009. The term of the loan will run up to 20 years for most projects. Those suppliers meeting disadvantaged community criteria will, however, be able to extend their terms for up to 30 years, if they desire.

Part 54 of Act 451 also permits suppliers serving less than 10,000 persons to receive reimbursement of project planning costs upon delivery of an approvable project plan to the DEQ. Legislation has been passed to provide a funding mechanism for this reimbursement. Interim planning loans first became an option for DWRF applicants in FY 2001.

IX. PROPOSED PROGRAM CHANGE

The DEQ will discontinue providing assistance to projects that accomplish the refinancing/refunding of construction debt. As such, beginning with FY 2009, no new project plan submittals for projects that proceeded to construction with non-DWRF financing will be accepted. This program change is being proposed because fund resources are limited and refinancing projects provides no new environmental/public health benefits to water quality.

X. DISADVANTAGED COMMUNITY STATUS

Disadvantaged community status is determined by the DEQ based on information submitted with a supplier's project plan. To qualify, an applicant must first meet the definition of "municipality" found in Part 54 of Act 451. Next, the updated median annual household income (MAHI) of the area to be served must be less than 120 percent of the state's updated MAHI. Finally, the costs of the project must be borne by the customers in the service area. If costs are spread over a larger area, then that area must demonstrate that it meets the poverty or affordability criteria.

Once these conditions are met, a community will be awarded the disadvantaged community status if one of the following is true:

- More than 50 percent of the area to be served by the proposed project is identified as a poverty area by the U.S. Census Bureau.

- The updated MAHI of the area to be served is less than the most recently published federal poverty guidelines for a family of four in the contiguous United States.
- The updated MAHI is less than the updated statewide MAHI and the annual user costs for water supply exceed 1.5 percent of the service area's MAHI.
- The updated MAHI is more than the updated statewide MAHI and the annual user costs for water supply exceed 3 percent of the service area's MAHI.

The major benefits for qualified communities include 50 additional priority points, extension of loan terms to 30 years, and assistance to help defray the costs of preparing project plans. There are three projects, the city of Benton Harbor (2 projects) and the city of New Haven, on the FY 2009 final PPL that qualify for disadvantaged community status.

A complete discussion of the disadvantaged community status may be found in a guidance document prepared by the DEQ to more fully explain how a supplier can achieve the status and benefit from it. RLOCS staff encourages all applicants to supply the pertinent data to perform a disadvantaged community status analysis.

XI. EPA AUTOMATED CLEARINGHOUSE ACTIVITIES

The EPA employs an Automated Standard Application for Payments (ASAP) system to make disbursements of federal funds. Michigan will comply with this system and deposit funds drawn from it into appropriate accounts set up for the DWRF.

Beginning first quarter in FY 2009, Michigan anticipates drawing capitalization grant funds from the ASAP system.

One request for disbursement may be submitted by the local project's authorized representative (or state agencies) each month. As project costs (or program administrative/set-aside costs) are incurred, the request for disbursement of funds will be sent directly to the DEQ, who will then process the request as part of a weekly draw request. Upon delivery to its office, the Authority will execute the fund drawdown electronically by transferring money from the federal ASAP and state accounts.

Moneys will be automatically deposited into the debt service reserve account of the DWRF, while funds are electronically wired to a municipal water supplier's bank from a DWRF account. For non-municipal water suppliers, the funds will be transferred from direct federal and state capitalization amounts established specifically for the purpose of reimbursing their eligible project costs.

XII. ASSURANCES

The final guidelines from the EPA set forth provisions that the state must provide certain assurances in order to qualify for capitalization grant funding. Such assurances are incorporated into the Operating Agreement and are included here by reference.

XIII. OUTPUT/OUTCOME MEASURES

To comply with the EPA requirements on Environmental Benefits of the DWRF, Michigan estimates that the following outputs will result from project loans in FY 2009 (excluding any projects noted as future on the PPL):

- A. Output: Michigan will fund approximately 34 drinking water transmission/distribution loans in FY 2009 to construct/rehabilitate/upgrade drinking water transmission and distribution systems across the state. The total dollar amount of these loans will be approximately \$155,086,685.

Outcome: The funding of these projects will result in more people getting better drinking water from current and existing treatment systems in Michigan.

- B. Output: Michigan will fund approximately two drinking water treatment projects in FY 2009 to construct and/or rehabilitate drinking water treatment facilities across the state. The total dollar amount of these loans will be approximately \$14,240,000.

Outcome: The funding of these projects will result in better drinking water for thousands of people in Michigan and, upon completion of the projects, facilities that meet all applicable permits and SDWA requirements.

- C. Output: Michigan will fund approximately five drinking water storage projects in FY 2009 to construct and/or rehabilitate drinking water storage facilities across the state. The total dollar amount of these loans will be approximately \$6,296,382.

Outcome: The funding of these projects will result in improved drinking water and storage facilities that meet all applicable permits and SDWA requirements.

- D. Output: Michigan will fund approximately three drinking water source projects in FY 2009 to construct and/or rehabilitate drinking water source facilities across the state. The total dollar amount of these loans will be approximately \$9,536,861.

Outcome: The funding of these projects will result in improved drinking water for thousands of people across Michigan.

Please note that the number of loans will not agree with the number on the PPL, as many of the project loans include work in more than one category (i.e. transmission/distribution, treatment, storage, and source).

XIV. PUBLIC REVIEW AND COMMENT

In order to satisfy public participation requirements, the DEQ held a public hearing to discuss the DWRF draft IUP on August 20, 2008. This hearing was publicly noticed in the Detroit Legal News, the Lansing State Journal, and the Marquette Mining Journal; posted on the DEQ calendar of events; mailed to all persons and engineering firms on our newsletter mailing list, and individually noticed to each water supplier on the FY 2009 draft PPL. These sources promote the hearing to ensure maximum public input from those interested in the DWRF. The hearing affords stakeholders and other interested parties an opportunity to hear and comment on how the DEQ plans to disburse the DWRF loan funds. All comments will be responded to upon the close of the hearing record.

Questions about the DWRF final IUP may be directed to:

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XV. ORIGINATION OF DOCUMENTS

The Chief of the Environmental Science and Services Division, Department of Environmental Quality, is responsible for issuing the DWRF final IUP. The DWRF final IUP and its accompanying information are prepared by the RLOCS. It is a collaborative effort by the WB and ESSD/RLOCS staff to provide data for its development.

Fiscal Year 2009 Project Priority List By Rank

Rank	Project Number	Project Name and Description			Population	Point Total	Bind. Com Date	Bind. Com Amount
PROJECTS		WITHOUT PRIOR YEAR SEGMENTS						
1	7262-01	Benton Harbor	Berrien Co	Water sys impr (Phase 1)	20,500	840	3/13/2009	\$1,410,000
2	7273-01	Benton Harbor	Berrien Co	Water sys impr (Phase 2)	20,500	840	Future	\$13,095,000
3	7193-01	Monroe Co	Exeter Twp	New water mains District 4	1,196	695	Future	\$10,425,000
4	7237-01	St Joseph	Berrien Co	New Intake	27,836	540	8/28/2009	\$7,415,000
5	7238-01	St Joseph	Berrien Co	WTP upgrade (future phase)	27,836	540	Future	\$13,390,000
6	7269-01	Howell	Livingston Co	Repl mains (Phase 3)	9,821	530	Future	\$3,140,000
7	7268-01	Howell	Livingston Co	Repl mains/2nd raw water line (Phase 2)	9,821	530	Future	\$4,490,000
8	7258-01	Howell	Livingston Co	Repl mains/WTP repair/ strg tank repair (Phase 1)	9,821	530	6/5/2009	\$5,365,000
9	7255-01	Buchanan	Berrien Co	New well/trans/control bldg; strg/meter upgrd	4,681	505	6/5/2009	\$2,465,000
10	7260-01	New Haven	Macomb Co	Repl mains; strg imp	3,071	495	6/5/2009	\$10,970,000
11	7261-01	Marquette Twp	Marquette Co	New wellfield/strg/trans main	2,563	470	6/5/2009	\$5,185,000
12	7263-01	YCUA	Washtenaw Co	Repl mains (N. Hewitt Rd.)	75,876	450	6/5/2009	\$380,000
13	7249-01	Ypsilanti	Washtenaw Co	Repl mains (Mansfield St)	75,876	450	6/5/2009	\$655,000
14	7264-01	YCUA	Washtenaw Co	Bridge Rd. PS Impr	75,876	450	Future	\$2,580,000
15	7173-01	YCUA	Washtenaw Co	Future phases (city/twp-thru FY2010)	75,876	450	Future	\$3,940,000
16	7271-01	St Joseph	Berrien Co	Repl mains; looping	27,836	440	Future	\$540,000
17	7272-01	St Joseph	Berrien Co	Repl mains; looping (future phases)	27,836	440	Future	\$3,340,000
18	7265-01	Van Buren Twp	Wayne Co	Repl mains/looping	23,559	440	3/13/2009	\$11,775,000
19	7252-01	Lansing Twp	Ingham Co	Repl mains (Phase 2)	5,000	430	6/5/2009	\$485,000
20	7253-01	Lansing Twp	Ingham Co	Repl mains (Phase 3)	5,000	430	Future	\$650,000
21	7177-01	Stockbridge	Ingham Co	Repl mains/looping (future phases)	1,290	395	Future	\$1,800,000
22	7010-99	Sault Ste Marie	Chippewa Co	Repl mains @ CSO areas (future phases)	14,689	340	Future	\$6,000,000
23	7259-01	Dearborn	Wayne Co	Repl mains (Phase 1)	90,107	325	6/5/2009	\$3,025,000
24	7274-01	Dearborn	Wayne Co	Repl mains (future phases)	92,171	325	Future	\$15,425,000
25	7276-01	Port Huron	St Clair Co	Repl mains (Stone St, Phase 2)	32,338	315	6/5/2009	\$375,000
26	7266-01	Brownstown Twp	Wayne Co	Trans upgrades (Phase 2)	28,542	315	Future	\$450,000
27	7267-01	Brownstown Twp	Wayne Co	Trans upgrades (Phase 3)	28,542	315	Future	\$800,000
28	7257-01	Brownstown Twp	Wayne Co	Trans upgrades (Phase 1)	28,542	315	6/5/2009	\$2,170,000
29	7256-01	Redford Twp	Wayne Co	Repl mains/ looping	48,285	315	8/28/2009	\$4,320,000
30	7227-01	Monroe	Monroe Co	Repl/rehab mains; looping (Phase 2)	45,436	315	6/5/2009	\$4,955,000
31	7228-01	Monroe	Monroe Co	Repl/rehab mains; looping (Phase 3)	45,436	315	Future	\$5,670,000
32	7180-01	Fenton	Genesee Co	Repl mains, looping	11,907	315	Future	\$1,930,000
33	7275-01	Port Huron	St Clair Co	Repl mains (21st St, Phase 1)	32,338	315	3/13/2009	\$7,250,000
34	7131-01	Port Huron	St Clair Co	Repl mains; looping (future phases)	32,338	315	Future	\$22,500,000
35	7251-01	River Rouge	Wayne Co	Repl mains/valves (Phase 2)	9,395	305	Future	\$2,775,000
36	7244-01	River Rouge	Wayne Co	Repl mains/meters/valves (Phase 1)	9,395	305	6/5/2009	\$4,675,000
36	Projects							\$185,815,000

Category Description	Points	7010-99	7131-01	7173-01	7177-01	7180-01	7193-01	7227-01	7228-01	7237-01	7238-01	7244-01	7249-01	7251-01	7252-01	7253-01	7255-01	7256-01
DRINKING WATER SYSTEM COMPLIANCE - TOTAL	450 (max)	150	150	150	150	150	450	150	150	375	375	150	150	150	150	150	150	150
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250						■											
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200						■			■	■							
Facility Upgrade to Maintain Compliance	150	■	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■
Aesthetic Upgrades to Maintain Compliance	25									■	■							
INFRASTRUCTURE IMPROVEMENTS/UPGRADES - TOTAL	350 (max)	150	125	250	125	125	125	125	125	125	125	125	250	125	150	150	225	125
Source/Treatment w/ Connecting Mains	125 (max)	0	0	0	0	0	0	0	0	125	125	125	0	0	0	0	100	0
Meet Minimum Capacity	100									■	■	■						
Reliability	75										■						■	
Other Upgrades	25									■	■	■					■	
Enforcement Action	25																	
Source Water Protection	50									■	■							
Transmission/Distribution Mains	125 (max)	125	125	125	125	125	125	125	125	0	0	0	125	125	125	125	100	125
Meet Minimum Capacity	100	■	■	■	■	■	■	■	■				■	■	■	■		■
Reliability	75	■	■		■	■	■	■	■						■	■	■	■
Other Upgrades	25	■	■	■	■	■		■	■				■	■			■	
Enforcement Action	25																	
Storage Facilities/Pumping Stations	125 (max)	25	0	125	0	0	0	0	0	0	0	0	125	0	25	25	25	0
Meet Minimum Capacity	100			■									■					
Reliability	75			■									■					
Other Upgrades	25	■		■									■		■	■	■	
Enforcement Action	25																	
POPULATION - TOTAL	50 (max)	40	40	50	20	40	20	40	40	40	40	30	50	30	30	30	30	40
0-500	10		■															
501-3,300	20			■	■		■											
3,301-10,000	30	■										■		■	■	■	■	
10,001-50,000	40	■	■			■		■	■	■	■		■	■				■
>50,000	50			■				■			■	■	■					
DISADVANTAGED COMMUNITY - TOTAL	50 (max)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Granted	50																	
CONSOLIDATION - TOTAL	100 (max)	0	0	0	0	0	100	0	0	0	0	0	0	0	0	0	0	0
Achieve Compliance	100						■											
Correct Deficiencies	60																	
Other	40																	
COMP. WELLHEAD/SOURCE WATER PROTECT PLANS - TOTAL	100 (max)	0	0	0	100	0	0	0	0	0	0	0	0	0	100	100	100	0
Granted	100				■										■	■	■	
TOTAL PRIORITY POINTS ASSIGNED	1000 (max)	340	315	450	395	315	695	315	315	540	540	305	450	305	430	430	505	315

Category Description	Points	7257-01	7258-01	7259-01	7260-01	7261-01	7262-01	7263-01	7264-01	7265-01	7266-01	7267-01	7268-01	7269-01	7271-01	7272-01	7273-01	7274-01
DRINKING WATER SYSTEM COMPLIANCE - TOTAL	450 (max)	150	150	150	150	150	400	150	150	150	150	150	150	150	150	150	400	150
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250						■										■	
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200																	
Facility Upgrade to Maintain Compliance	150	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Aesthetic Upgrades to Maintain Compliance	25																	
INFRASTRUCTURE IMPROVEMENTS/UPGRADES - TOTAL	350 (max)	125	250	125	275	300	350	250	250	250	125	125	250	250	250	250	350	125
Source/Treatment w/ Connecting Mains	125 (max)	0	100	0	125	125	125	0	0	0	0	0	100	100	0	0	125	0
Meet Minimum Capacity	100		■		■	■	■						■	■			■	
Reliability	75				■	■	■										■	
Other Upgrades	25				■	■	■										■	
Enforcement Action	25						■										■	
Source Water Protection	50																	
Transmission/Distribution Mains	125 (max)	125	125	125	125	75	125	125	125	125	125	125	125	125	125	125	125	125
Meet Minimum Capacity	100	■	■	■	■		■	■	■	■	■	■	■	■	■	■	■	■
Reliability	75	■		■	■	■	■			■	■	■			■	■	■	■
Other Upgrades	25		■	■				■	■	■			■	■				■
Enforcement Action	25																	
Storage Facilities/Pumping Stations	125 (max)	0	25	0	25	100	100	125	125	125	0	0	25	25	125	125	100	0
Meet Minimum Capacity	100							■	■	■					■	■		
Reliability	75					■	■	■	■								■	
Other Upgrades	25		■		■	■	■	■	■	■			■	■	■	■	■	
Enforcement Action	25																	
POPULATION - TOTAL	50 (max)	40	30	50	20	20	40	50	50	40	40	40	30	30	40	40	40	50
0-500	10																	
501-3,300	20				■	■												
3,301-10,000	30		■										■	■				
10,001-50,000	40	■					■			■	■	■			■	■	■	
>50,000	50			■				■	■									■
DISADVANTAGED COMMUNITY - TOTAL	50 (max)	0	0	0	50	0	50	0	0	0	0	0	0	0	0	0	50	0
Granted	50				■		■										■	
CONSOLIDATION - TOTAL	100 (max)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Achieve Compliance	100																	
Correct Deficiencies	60																	
Other	40																	
COMP. WELLHEAD/SOURCE WATER PROTECT PLANS - TOTAL	100 (max)	0	100	0	0	0	0	0	0	0	0	0	100	100	0	0	0	0
Granted	100		■										■	■				
TOTAL PRIORITY POINTS ASSIGNED	1000 (max)	315	530	325	495	470	840	450	450	440	315	315	530	530	440	440	840	325

Category Description	Points	7275-01	7276-01															
DRINKING WATER SYSTEM COMPLIANCE - TOTAL	450 (max)	150	150															
Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	250																	
Non-Acute Viol. of DW Standards, Health Advisory Levels, SWTT, Disease	200																	
Facility Upgrade to Maintain Compliance	150	■	■															
Aesthetic Upgrades to Maintain Compliance	25																	
INFRASTRUCTURE IMPROVEMENTS/UPGRADES - TOTAL	350 (max)	125	125															
Source/Treatment w/ Connecting Mains	125 (max)	0	0															
Meet Minimum Capacity	100																	
Reliability	75																	
Other Upgrades	25																	
Enforcement Action	25																	
Source Water Protection	50																	
Transmission/Distribution Mains	125 (max)	125	125															
Meet Minimum Capacity	100	■	■															
Reliability	75	■	■															
Other Upgrades	25	■	■															
Enforcement Action	25																	
Storage Facilities/Pumping Stations	125 (max)	0	0															
Meet Minimum Capacity	100																	
Reliability	75																	
Other Upgrades	25																	
Enforcement Action	25																	
POPULATION - TOTAL	50 (max)	40	40															
0-500	10																	
501-3,300	20																	
3,301-10,000	30																	
10,001-50,000	40	■	■															
>50,000	50																	
DISADVANTAGED COMMUNITY - TOTAL	50 (max)	0	0															
Granted	50																	
CONSOLIDATION - TOTAL	100 (max)	0	0															
Achieve Compliance	100																	
Correct Deficiencies	60																	
Other	40																	
COMP. WELLHEAD/SOURCE WATER PROTECT PLANS - TOTAL	100 (max)	0	0															
Granted	100																	
TOTAL PRIORITY POINTS ASSIGNED	1000 (max)	315	315															

Michigan Drinking Water Revolving Fund
Estimated Category Costs for FY 2009 Final Project Priority List (PPL)

Project #	Trans/Distribution	Treatment	Storage	Source	Other	Sum
7010-99	6,000,000					6,000,000
7131-01	22,500,000					22,500,000
7173-01	3,940,000					3,940,000
7177-01	1,800,000					1,800,000
7180-01	1,930,000					1,930,000
7193-01	10,425,000					10,425,000
7227-01	4,955,000					4,955,000
7228-01	5,670,000					5,670,000
7237-01				7,415,000		7,415,000
7238-01		13,390,000				13,390,000
7244-01	4,675,000					4,675,000
7249-01	655,000					655,000
7251-01	2,775,000					2,775,000
7252-01	485,000					485,000
7253-01	650,000					650,000
7255-01	350,000	850,000	115,000	550,000	600,000	2,465,000
7256-01	4,320,000					4,320,000
7257-01	2,170,000					2,170,000
7258-01	5,365,000					5,365,000
7259-01	3,025,000					3,025,000
7260-01	10,728,548		186,380		55,072	10,970,000
7261-01	2,688,103		925,036	1,571,861		5,185,000
7262-01	1,322,500		87,500			1,410,000
7263-01	380,000					380,000
7264-01	2,580,000					2,580,000
7265-01	6,792,534		4,982,466			11,775,000
7266-01	450,000					450,000
7267-01	800,000					800,000
7268-01	4,490,000					4,490,000
7269-01	3,140,000					3,140,000
7271-01	540,000					540,000
7272-01	3,340,000					3,340,000
7273-01	13,095,000					13,095,000
7274-01	15,425,000					15,425,000
7275-01	7,250,000					7,250,000
7276-01	375,000					375,000
Totals	155,086,685	14,240,000	6,296,382	9,536,861	655,072	185,815,000

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